STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNITED DENTAL CARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

September 30, 2000

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August 22, 2001

Honorable Merwin U. Stewart
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of September 30, 2000, has been made of the financial condition and business affairs of:

UNITED DENTAL CARE OF UTAH, INC.
Salt Lake City, Utah

a limited health plan, hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

HISTORY

The Organization was organized on March 24, 1986, as U.S. Dental Plan, Inc., a Utah corporation. Authority to operate in the State of Utah as a limited health plan was granted by the Utah Insurance Department on October 4, 1995.

The corporation was authorized to issue 25,000 shares of common stock with a par value of $1.00 per share. All authorized shares were issued to an affiliate and sole shareholder, U.S. Dental Management Inc., an Arizona corporation.

Effective November 27, 1995, United Dental Care, Inc. ("UDC"), a Delaware corporation, acquired U.S. Dental Management, Inc., parent of the Organization. The acquisition was subject to regulatory approval. The acquisition was approved by the Utah Insurance Department on May 29, 1996. The Organization's name was changed to United Dental Care of Utah, Inc.

Effective September 11, 1998, UDC, parent of the Organization, was acquired by Protective Life Corporation ("PLC"), a Delaware corporation. The Utah Insurance Department approved the acquisition on July 7, 1998.

On October 1, 2000, the issued shares of the Organization's common stock were transferred from UDC to Protective Life Insurance Company ("PLICO"), a wholly owned subsidiary of PLC. The Utah Insurance Department was not notified of the exchange of securities, and the acquisition of control referred to in Utah Code Annotated (U.C.A.) §

31A-16-103(1) was not approved by the commissioner pursuant to (U.C.A.) § 31A-16-103(8). Although the immediate parent changed to PLICO, there was no change in the ultimate parent, PLC.

NET WORTH

The amended articles of incorporation authorized 25,000 shares of capital stock to be issued with a par value of $1.00 per share. Ten thousand shares of common stock were issued for total capital stock of $10,000. All shares were issued to the Organization's sole shareholder PLICO.

On May 18, 1998, the UDC board of directors passed a resolution to transfer $90,000 in cash from the parent to the Organization in the form of a capital contribution. The UDC board of directors did not pass corporate resolutions for the additional contributions to surplus during the examination period. The minutes of the meetings of the Organization's board of directors did not indicate that the additional contributions to surplus were made to the Organization by the parent. The Organization provided an affidavit signed by a corporate officer certifying that the contributions were held free and clear of all liens, claims or encumbrances whatsoever, and the contributed capital was not held as collateral for any other loans.

The Organization was not in compliance with U.C.A. § 31A-5-404(1)(a) which refers to Section 16-10a-1601. According to U.C.A. Section 16-10a-1601(1) "A corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting."

The following schedule presents contributions to surplus made since the Organization's inception and the Organization's net worth on September 30, 2000.

Year	Amount
1995	$ 2,771
1996	24,716
1998	90,000
1999	94,000
2000	150,000
Total Contributions to Surplus	$ 361,487
Capital Stock	10,000
Fund Balance at September 30, 2000	(10,872)
Net Worth at September 30, 2000	$ 360,615

STATUTORY RESERVES AND DEPOSIT

The Organization's minimum capital requirement was $10,000 in accordance with U.C.A. § 31A-8-210(9). The Organization's compulsory surplus requirement was $5,000 in accordance with U.C.A. § 31A-8-209(3). Upon inception, the Organization met the requirement to maintain an initial surplus in excess of compulsory surplus of $15,000.

The Organization was required to maintain a deposit in an amount equal to its minimum permanent surplus plus 50% of its compulsory surplus pursuant to U.C.A. § 31A-8-211. As of September 30, 2000, the statutory deposit requirement was $12,500, and the Company maintained a statutory deposit consisting of U.S. Treasury Notes in the amount of $25,000 through the Utah Insurance Department.

AFFILIATED COMPANIES

Affiliates

The Organization is a member of an insurance holding company system, and it is subject to the requirements of U.C.A. § 31A Chapter 16. The ultimate controlling person is PLC. The Organization is 100% directly owned by PLIC, a wholly owned subsidiary of PLC. The Organization is operated out of the PLC home office in Birmingham, Alabama. The following illustrates the direct line of control from the Organization to its ultimate controlling person:

Protective Life Corporation ("PLC")
    Protective Life Insurance Company ("PLIC")
        United Dental Care of Utah, Inc.

Transactions with Affiliates

Pursuant to the Agreement for Data Processing Programming Services by and between PLC and the Organization, PLC agreed to provide data processing programming services. Costs shall be determined by allocating the expenses incurred by PLC for providing the services based upon a percentage of the amount of time spent in performing said services by PLC's personnel multiplied by rates for such services then in effect. The costs are to be accumulated and settled monthly.

Pursuant to the Services Agreement by and between UDC and the Organization, UDC agreed to provide administrative services as may be necessary and appropriate for the business operations of the Organization. In return for the services provided, the Organization agreed to pay UDC the allocated costs incurred using generally accepted accounting principles. The administrative services included, but were not limited to, the following: accounting and actuarial services, claims and benefit payments, provider services, marketing and sales services, data processing services, legal services, executive services, compliance services, underwriting services, broker and agent services, and investment services.

According to the Agreement for Administrative Services between PLC and members of the PLC holding company system, the Organization, as a member of the PLC holding company system, receives administrative services. Administrative service costs shall be shared by PLC and the members of the PLC holding company system in accordance with generally accepted accounting principles.

Under the Agreement for Investment Services by and between the Organization and PLC, PLC agreed to perform investment services. All investment transactions shall be reported to and are subject to authorization or approval by the board of directors of the Organization and any regulatory approvals. Fees for all investment services are based on a percentage of either interest income, income received or dividends, not to include third party fees.

The Tax Allocation Agreement by and between PLC and the Organization, was executed for the purpose of filing a U.S. consolidated income tax return annually with the Internal Revenue Service. The affiliated members of the group shall compute their separate tax liability as if each member had filed a separate tax return in accordance with the provisions of Internal Revenue Code Regulation Section 1.1552-1(a)(2)(ii). Each member agreed to pay the computed tax liability to PLC, the ultimate parent. Provisions were included in the agreement for various tax scenarios. In the event the separate return liability exceeds the consolidated tax liability for any taxable period as a result of any excess losses or tax credits, then the parent shall pay the Organization its allocable portion of such excess amount within ten days after the date of the filing of the consolidated tax return for such period.

The Organization did not notify the commissioner of its intent to enter into all of the above mentioned agreements, except the Services Agreement and the Tax Allocation Agreement, as required by U.C.A. § 31A-16-106(1)(b)(iv). This subsection states that a domestic insurer may not enter into any management agreements, service contracts, or cost-sharing arrangements with any person in its holding company system unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into the transaction.

MANAGEMENT

The bylaws of the corporation state, "the business and affairs of the corporation shall be controlled by, the Board of Directors. The authorized number of Directors of the corporation shall be three (3)." According to Article V of the amended articles of incorporation, "Provided that the Corporation has at least three directors, and that a majority of the directors are residents of the state of Utah, the number of directors may at any time or times, be increased or decreased as provided in the Bylaws." The Organization was not in compliance with U.C.A. § 31A-5-407(2), because a majority of the directors were not residents of the State of Utah nor was the Organization in compliance with Article V of its amended articles of incorporation.

The following persons served as directors and officers of the Organization as of September 30, 2000:

Directors	Principal Occupation
Chris T. Calos Birmingham, Alabama	Protective Life Corporation Senior Vice President, Dental and Consumer Benefits
David C. Stevens Birmingham, Alabama	Protective Life Insurance Company Vice President, Operations
Timothy H. Bolden Birmingham, Alabama	Protective Life Insurance Company Vice President, Compliance & Governmental Affairs

Officers	Position
Chris T. Calos	Chief Executive Officer
David C. Stevens	President
Jerry W. DeFoor	Vice President and Treasurer
Deborah J. Long	Secretary
Eugene A. Beatty	Assistant Secretary
Harriette T. Hyche	Assistant Secretary

Article III Section 6 of the bylaws of the corporation states "the President shall be the chief executive officer of the corporation." Contrary to the bylaws, the board of directors elected a separate person to hold the office of chief executive officer during the annual and special meetings held in the years 1998, 1999, and 2000.

The commissioner was not notified immediately after the election of three directors and four principal officers during the examination period, and biographical affidavits were not filed with the Utah Insurance Department pursuant to U.C.A. § 31A-5-410(1)(a). In February 2001, biographical affidavits were filed with the commissioner for the following directors and officers: Chris T. Calos, David C. Stevens, Timothy H. Bolden, Jerry W. DeFoor, and Deborah J. Long.

On May 1, 2000, Danny L. Bentley was removed as a director and chief executive officer of the corporation, and Peter R. Barnett, DMD, was removed as a director and president of the corporation. A statement was not filed with the commissioner immediately after the removal of the two directors and two principal officers pursuant to U.C.A. § 31A-5-410(2).

CONFLICT OF INTEREST

The Organization established a procedure for disclosure to its board of directors of any material conflict of interest on the part of its officers, directors or responsible employees on September 11, 1998. The policy of the Organization is to require all directors and management employees of the Organization to sign a conflict of interest statement on an annual basis. All of the directors and officers signed a conflict of interest statement in the years 1998, 1999 and 2000.

CORPORATE RECORDS

According to Article II of the bylaws, "The business and affairs of the corporation shall be controlled by, the Board of Directors. The authorized number of Directors of the corporation shall be (3). The Directors shall be elected at each annual meeting of stockholders. A majority of the authorized number of Directors shall be necessary to constitute a quorum."

Article III of the bylaws states that "The officers of the corporation shall be a President, a Secretary and a Treasurer. At the discretion of the Board of Directors, a Chairman of the Board of Directors, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed. Officers other than the Chairman of the Board need not be Directors. One person may not hold more than one office. Officers shall be chosen annually by the Board of Directors."

INTERNAL SECURITY

The Organization does not maintain any insurance coverage in its own name. Instead, it participates in policies maintained by PLC and UDC. The Organization's fidelity insurance coverage amount of $25,000,000 met suggested minimum amounts set forth by the National Association of Insurance Commissioners ("NAIC").

TERRITORY AND PLAN OF OPERATIONS

The Organization has a certificate of authority authorizing it to operate as a limited health plan in the State of Utah. The Organization does not operate in any other jurisdictions.

The Organization primarily relies on its network of independent agents and brokers to solicit new business. Broker education material describing the various plans available is provided to its agents. The Organization mostly targets groups with over five employees on both a voluntary and employer-paid basis. Its preprinted advertising material is directed to the group audience.

The Organization offers prepaid dental products with a low, medium, and high managed dental care option. There is also a specialty benefit available for members requiring a specialist who is part of the Organization's provider network.

PROVIDER CONTRACTS

The Organization contracted with approximately 179 dental providers to provide services to its enrollees. A majority of these providers are located within the Wasatch Front metropolitan area. Payment mechanisms usually found in the Organization's provider contracts provide for a monthly capitation payment to the provider.

Utah Administrative Code (U.A.C.) Rule R590-76-9 requires that "All provider contracts must be on file and available for review by the commissioner and the director." The Organization did not maintain copies of all provider agreements executed in accordance with U.C.A. § 31A-8-407. Some provider agreements, executed prior to the UDC acquisition, were not in compliance with U.C.A. § 31A-8-407(1), because the provider agreements did not contain the provision that the enrollee shall not be held liable to the provider for any sums owed by the Organization in the event the Organization fails to pay for health care services as set forth in the provider agreement.

The Organization did not maintain adequate records to determine its regulatory obligations in accordance with Utah Insurance Code Title 31A or with its agreements with its contracted providers. There was no evidence of adequate insurance for several providers as required by U.A.C. Rule R590-76-12(F). The Organization did not keep current records of all its providers' licenses. The Organization may not contract with a health care provider unless the health care provider is licensed to perform treatment of illness or injury pursuant to U.C.A. § 31A-22-617(6).

U.C.A. § 31A-22-617(3)(a) requires that the Organization have a listing of providers under contract. The Organization's "Participating General Dentist Directory for Utah" listed a provider who was no longer under contract, because the contract was canceled approximately two years prior to the date of the listing. Also, another provider was listed with an Idaho Falls office address, which is outside of the service area. Pursuant to U.A.C. Rule R590-76-4(M) the service area "means the geographical area within a forty 40 mile radius of the Organization's nearest health care services facility."

The Organization had a total of 14,448 enrollees as of September 30, 2000. Of these, 11,671 belonged to group plans. The remaining 2,777 were individual enrollees.

RATES

The Organization provides prepaid dental coverage to its group enrollees and individual consumers through its network of dental providers. The Organization's underwriting function gathers information from questionnaires completed by new groups to determine premiums. This information is used to set premium rates.

Management of the Organization establishes the underwriting policies. Group underwriters administer the group insurance underwriting policies designed for single employer groups. The Organization bases its initial premium rates on prior claim experience and manual premium rates with relative weights depending on the size of the group and the nature of the benefits. Components of the Company's premium rates include expected capitation paid to providers, factors for administration, and factors for specialty care.

REINSURANCE

The Organization did not cede or assume any reinsurance.

GRIEVANCE PROCEDURES

Pursuant to U.A.C. Rule R590-76-8, the Organization has a written procedure through which covered persons may channel complaints, which is included in the certificate of coverage sent to each enrollee at the time of enrollment. The Organization did not maintain a complaint register listing all the complaints during the examination period. The Organization's records showed that none of the eight formal grievances it received during the period under examination were outstanding as of September 30, 2000. One formal complaint involving a recovery on the part of the member was registered with the Utah Insurance Department.

The Organization established a Quality Improvement Committee to comply with the requirements set forth in U.C.A. § 31A-8-401 "for allowing enrollees to participate in matters of policy of the organization and for resolving complaints and grievances initiated by enrollees or providers." The minutes of the meetings of the Quality Improvement Committee were reviewed.

The Organization did not comply with two requirements set forth in Article X of its bylaws. First, the minutes of the meetings of the board of directors did not reflect that the Quality Improvement Committee presented "a regular report regarding the recommendations of the committee." Second, although the bylaws stated, "there shall be a Consumer Advisory Committee consisting of five plan providers, two plan enrollees and two representatives of the plan, and the Corporate Dental Director," the minutes of the meetings of the Quality Improvement Committee indicated there were four members, including the dental director, as of June 20, 2000.

Members	Position
Michael Schwab, DMD	Dental Director
Corrinne Hanson, RN	Director of Quality Improvement
Cindy Nold	Provider Relations Representative
Louis Hernandez	Regional Network Director

PENDING LITIGATION

The Organization was not aware of any pending lawsuits as of September 30, 2000, or through the date of this examination report.

ACCOUNTING PROCEDURES

Most of the functions necessary for the Organization's operation were performed by employees of its parent, UDC and by employees of its ultimate parent, PLC. The Organization's records were maintained and processed in both, Birmingham, Alabama and Dallas, Texas. The Organization received permission from the Utah insurance commissioner to maintain its home office in Utah in an order dated October 4, 1995 (Utah Insurance Docket 95-149). However, the Organization did not maintain records in Utah adequate for examination purposes as required by this order.

Through 1997, a certified public accounting firm audited the Organization's records annually. The Organization was not audited for the years 1998 and 1999. Audit reports generated by the auditors were made available for the examiner's use.

The Organization's general ledger was maintained on an accrual basis. The examiner footed the Organization's general ledger trial balance and reconciled it to the Balance Sheet and statement of Revenue, Expenses and Net Worth contained in the September 30, 2000, quarterly statement. Individual financial statement accounts for the years covered in the examination period were reviewed and reconciled as deemed necessary.

Item ten of the general section of the *Annual Statement Instructions* for limited health services organizations promulgated by the NAIC states, "If the annual statement and schedules do not contain the information asked for in the blanks or is not prepared in accordance with these instructions, it will not be considered properly filed." In addition, U.C.A. § 31A-2-202(6) requires that "All information submitted to the commissioner shall be accurate and complete."

Annual statement reporting deficiencies noted by the examination include:

1. The Organization filed its quarterly and annual financial statements using the statement blank prescribed by the NAIC for health maintenance organizations. However, the Organization is a limited health plan, and it was required to file its annual financial statements on the limited health services organization statement blank according to U.C.A. § 31A-4-113. Effective 2001, the NAIC Blanks Task Force adopted the "Health" statement blank to be filed by all health organizations.

2. Note one in the Notes to Financial Statements erroneously indicated the Organization was a health maintenance organization.

3. General Interrogatory #2, reported in the annual statements, indicated the Organization's latest financial examination was as of December 31, 1995. According to the NAIC *Annual Statement Instructions*, the "date of the Financial Exam that should be reported is for a financial examination conducted by a state regulatory authority. (It is not a CPA annual audit)." A statutory financial examination had not been conducted.

4. General Interrogatory #4 listed the number of shares authorized as 2,000,000, the number of shares outstanding as 10,000 and the par value per share as $0.10.

According to the amended articles of incorporation dated October 4, 1995, the number of shares authorized was 25,000, the number of shares outstanding was 1,000 and the par value was $1.00 per share.

5. General Interrogatory #9, in the Organization's 1999 annual statement, listed Federal Insurance Company as the carrier for the Organization's fidelity bond coverage. The correct carrier was Chubb Group of Insurance Co.

6. General Interrogatory #11, stated the purchase or sale of all investments was passed upon by either the board of directors or a subordinate committee thereof. There was no evidence in the minutes of the meetings of the board of directors that investments were approved. Pursuant to U.C.A. § 31A-5-407(6) "The board shall manage the business and affairs of the corporation and may not delegate its power or responsibility, except as authorized by Section 31A-5-412." In addition, there was no evidence that the Organization adhered to its Agreement for Investment Services with PLC by obtaining board approval for investments.

7. The Organization was unable to provide quantifiable information to the examination for uncovered expenditures reported in the Statement of Revenues and Expenses.

8. Schedule DA - Part 1 dated December 31, 1999, was not prepared in accordance with the NAIC *Annual Statement Instructions*. It is recommended the Organization report the investment detail, including the cusip number, the full description of the investment, and the date acquired.

9. Schedule E - Part 2 - Special Deposits in the 1998 and 1999 annual statements was incomplete according to the NAIC *Annual Statement Instructions*. The "Type" column was left blank when it should indicate the letter B for Bond. The "Description of Deposit" column should indicate the literal form of registration of the deposit; for bonds include the rate and due date. The purpose of the deposit should indicate who had possession of the deposit.

10. Column 6 in the 1999 Schedule D Part 1 reported the rate used to obtain a market value as AV. According to the NAIC *Annual Statement Instructions*, AV is to be used when the NAIC VOS has not published a rate. The 1999 4th quarter CD Rom showed a market value of $97 per share for U.S. Treasury Notes 6.125%, cusip number 9129273E0, maturing August 15, 2007. The Organization should have reported this rate, and a total market value of $24,250 should have been reported in column 7.

11. Unearned or advanced premiums line 13.a. in the 1999 Premium, Enrollment and Utilization Table did not tie to Unearned premiums line 4 in the Report #1 Part B: Liabilities and Net Worth statement.

12. The 1998 and 1999 annual statements Schedule Y-Part 2 did not show any management agreement or service contract transactions in column 8. According to the NAIC *Annual Statement Instructions*, items to be included in column 8 are

all revenues/expenditures, income tax amounts resulting from intercompany tax-sharing arrangements, and contracts for services provided by other affiliates.

Record keeping deficiencies noted by the examination include:

1. There were several inconsistencies in the Organization's records of its common stock. The Organization had no record of the issuance and cancellation of its previous sole shareholders' stock certificates showing the names of its stockholders and the number of shares issued.

   The board of directors passed a resolution on October 1, 2000, acknowledging the contribution of its sole shareholder UDC into PLICO. The board resolved to issue 10,000 shares with a par value of $1.00 per share to its new sole shareholder PLICO. The statement value of the common stock reflected in the Organization's general ledger was $1,000.

   According to Article III Section 9 of the United Dental Care of Utah, Inc. bylaws, the "Secretary shall keep, or cause to be kept, at the registered office in this state, (as required by Utah Statute) a stock ledger or duplicate stock ledger showing the names of the stockholders, and the number of shares held by each." The Organization did not comply with its bylaws.

   Item two in the 1997 and 1998 Annual Registration Statements submitted to the commissioner, erroneously reported 2,000,000 shares authorized at $.10 par value with 10,000 shares of common stock issued and outstanding. According to the amended articles of incorporation dated October 4, 1995, the amount of authorized capital stock was 25,000 shares, with a $1.00 par value per share, designated as common stock.

SCOPE OF EXAMINATION

Period Covered by Examination

This is the initial examination of the Organization since its inception. The current examination covered the period from October 4, 1995, through September 30, 2000, including any material transactions and/or events occurring subsequently to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the initiation and conclusion of the examination.

Examination Procedures Employed

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of September 30, 2000. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of September 30, 2000

STATEMENT OF REVENUES AND EXPENSES for the Quarter Ended September 30, 2000

STATEMENT OF CHANGES IN NET WORTH 1995 through September 30, 2000

RECONCILIATION OF EXAMINATION CHANGES IN NET WORTH as of September 30, 2000

The accompanying Notes to the Financial Statements are an integral part of the financial statements.

UNITED DENTAL CARE OF UTAH, INC.
BALANCE SHEET
as of September 30, 2000

Cash and short-term investments	$ (2,295)	(1)
Premiums receivable	13,983	
Investment income receivables	315	
Amounts due from affiliates	51,437	(2)
Bonds	390,745	(3)
Premium tax receivable	-	(4)
	$ 454,185	

LIABILITIES, SURPLUS, AND NET WORTH

	Total	
Claims payable	$ 55,045	
Unearned premiums	19,603	
Amounts due to affiliates	17,508	(5)
Accrued commissions	1,414	(6)
Total liabilities	$ 93,570	
Common stock	$ 10,000	(7)
Paid in surplus	361,487	(8)
Contributed capital	-	(9)
Retained earnings/fund balance	(10,872)	
Total net worth	$ 360,615	(10)
Total liabilities and net worth	$ 454,185	

Statutory surplus allocation:

Minimum capital	$ 10,000
Compulsory surplus	5,000
Surplus	345,615
Total net worth	$ 360,615

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF REVENUES AND EXPENSES
for the Quarter Ended September 30, 2000

	Total
REVENUES:	
Premium	$ 1,093,032
Net investment income	20,986
Miscellaneous income	7,296
	$ 1,121,314
EXPENSES:	
Professional services	$ 667,071
Outside referrals	167,223
Total provider	$ 834,294
Administration expenses	$ 314,303
Total expenses	$ 1,148,597
Income	(27,283)
Provision for federal income taxes	342
Net income	$ (27,625)

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF CHANGES IN NET WORTH
1995 through September 30, 2000

	1995*	1996*	1997*	1998*	1999*	09/30/00	Notes
Net worth beginning of year		$ 13,747	$ 53,438	$ 54,169	$ 127,124	$ 416,479	
Increase in common stock	$ 10,000						
Increase (decrease) in paid in surplus	2,771	24,716		90,000	244,000		
Net income (loss)	976	14,975	731	(10,898)	39,208	(27,625)	
Change in non-admitted assets				(6,147)	6,147	(28,237)	(4)
Rounding						(2)	
Net worth at end of year	$ 13,747	$ 53,438	$ 54,169	$ 127,124	$ 416,479	$ 360,615	(10)

* Per the regulatory financial statements filed with the Utah Department of Insurance.

UNITED DENTAL CARE OF UTAH, INC.
RECONCILIATION OF EXAMINATION CHANGES IN NET WORTH
as of September 30, 2000

Account	Examination	Company	Change in Surplus	Notes
Cash and short-term investments	$ (2,295)	$ 363,705	$ (366,000)	(1)
Bonds	390,745	24,745	366,000	(3)
Premium tax receivable	-	28,142	(28,142)	(4)
Common stock	(10,000)	(1,000)	(9,000)	(7)
Paid in surplus	(361,487)	(36,487)	(325,000)	(8)
Contributed capital	-	(334,000)	334,000	(9)
Total examination changes			$ (28,142)	
Net worth - Organization			388,757	
Net worth - Examination			$ 360,615	(10)

NOTES TO FINANCIAL STATEMENTS

(1) Cash and short-term investments ($2,295)

Short-term investments decreased by $366,000, to reflect the reclassification to Bonds in accordance with the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (SVO). The investment held in the overnight sweep account as of the examination date consisted of U.S. government bonds.

Short-term investments were not held in compliance with U.C.A. § 31A-4-108 and U.A.C. Rule R590-178-4, because the repurchase agreement between the Organization and the custodian bank did not contain all of the provisions set forth in U.A.C. Rule R590-178-4. The Organization terminated the repurchase agreement during the examination. The overnight sweep investments were discontinued, and the asset was held as cash.

(2) Amounts due from affiliates $ 51,437

The reported amount, $51,437, consisted of premiums collected on behalf of the Organization by UDC pursuant to the Services Agreement by and between UDC and the Organization. The Organization settled its intercompany balances on a monthly basis.

(3) Bonds $390,745

Bonds increased by $366,000 to $390,745 to reflect the reclassification from short-term investments according to the SVO.

(4) Premium tax receivable $ 0

The Premium tax receivable reported at $28,142, was not admitted, because it was not listed as an allowable asset under U.A.C. Rule R590-76-12.

(5) Amounts due to affiliates $ 17,508

Uncovered Amounts due to affiliates was $17,508 less than reported at September 30, 2000, to be consistent with U.C.A. § 31A-8-101(11). The $17,508 was a covered liability, because enrollees were not liable in the event of the Organization's insolvency.

(6) Accrued commissions $ 1,414

Uncovered Accrued commissions was $1,414 less than reported at September 30, 2000, to be consistent with U.C.A. § 31A-8-101(11). The $1,414 in Accrued commissions was a covered liability, because enrollees were not liable in the event of the Organization's insolvency.

(7) Common stock $10,000

Common stock was $10,000, or $9,000 more than reported, to be consistent with the NAIC *Annual Statement Instructions*. Common stock should equal the par value per share multiplied by the number of issued shares.

(8) Paid in surplus $361,487

Two adjustments were made to Paid in surplus to bring the balance to $361,487. First, a reclassification of $334,000 was made from Contributed capital, because the gross amount of paid in and contributed surplus should be reported on this line in accordance with the NAIC *Annual Statement Instructions*. The second adjustment was a $9,000 decrease resulting from the correction of the value of Common stock. The Organization erroneously transferred $9,000 from Common stock to Paid in Surplus due to an improperly reported statement value in the 1996 audited financial statements.

(9) Contributed capital $ 0

Contributed capital decreased by $334,000 due to a reclassification to Paid in surplus. The NAIC *Annual Statement Instructions* defines contributed capital as capital donated to a "nonprofit organization." The Organization is a "for profit" organization.

(10) Net worth $360,615

For examination purposes, the Organization's net worth was determined to be $360,615 or $28,142 less than reported in the September 30, 2000, quarterly statement.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. The Organization's shares of common stock issued to UDC were transferred to PLICO on October 1, 2000, without prior approval of the commissioner pursuant to U.C.A. § 31A-16-103(8). (HISTORY) ok

2. The board of directors did not pass corporate resolutions for three contributions to surplus in accordance with U.C.A. Section 16-10a-1601(1). It is recommended a record be kept of all contributions to surplus in the form of a corporate resolution passed by the board of directors. (NET WORTH) Proc. ch 9

3. The commissioner was not notified of agreements entered into with the Organization's affiliates. The Organization is subject to standards set for insurance holding companies. It is recommended a Form D "Prior Notice of a Transaction" be filed with the commissioner 30 days prior to entering into a transaction to comply with U.C.A. § 31A-16-106(1)(b)(iv). (Transactions with Affiliates) ok

4. The Organization was not in compliance with U.C.A. § 31A-5-407(2), because a majority of its directors were not residents of the State of Utah. (MANAGEMENT) Not ok

5. The board of directors did not elect its chief executive officer in accordance with it bylaws. (MANAGEMENT)

6. The Organization did not notify the commissioner nor provide biographical affidavits upon the election of directors and principal officers pursuant to U.C.A. § 31A-5-410(1)(a). (MANAGEMENT)

7. The Organization did not notify the commissioner of the removal of directors and principal officers according to U.C.A. § 31A-5-410(2). (MANAGEMENT)

8. All provider contracts were not on file with the Organization and available for review pursuant to U.A.C. Rule R590-76-9, and some provider contracts did not comply with U.C.A. § 31A-8-407(1). It is recommended that the Organization update its contracts with its providers to comply to bring it into compliance. (PROVIDER CONTRACTS)

9. Records were not maintained by the Organization evidencing all of its providers had the adequate insurance coverage and licenses to perform treatment of illness or injury as required by U.A.C. Rule R590-76-12(F) and U.C.A. § 31A-22-617(6). (PROVIDER CONTRACTS)

10. The Organization's provider listing contained a provider who was no longer under contract with the Organization. U.C.A. § 31A-22-617(3)(a) requires the Organization to have a listing of providers under contract. It is recommended the Organization maintain a current directory of its contracted providers. (PROVIDER CONTRACTS)

11. One provider was located outside the service area as defined in U.A.C. Rule R590-76-4(M). (PROVIDER CONTRACTS)

12. There was no evidence in the board of directors meeting minutes that the Quality Improvement Committee presented a regular report in accordance with the Organization's bylaws. Also, the membership of the Quality Improvement Committee did not have the amount of required members. (GRIEVANCE PROCEDURES)

13. Several deficiencies were noted in the review of the Organization's filings and accounting records. It is recommended that the Organization prepare the financial statements, schedules and exhibits in accordance with the NAIC *Annual Statement* Instructions and perform the cross checks between the financial statements and the schedules and exhibits. Also, it is recommended all amounts reported have proper supporting documentation to facilitate the examination process. (ACCOUNTING PROCEDURES)

14. The Organization was not in compliance with U.C.A. § 31A-5-407(6), because there was no evidence in the minutes of the meetings of the board of directors that investments were approved. It is recommended the Organization 's minutes of its meeting reflect the board's oversight of investments. (ACCOUNTING PROCEDURES)

15. The repurchase agreement with the custodian bank was terminated during the examination, because it did not comply with U.A.C. Rule R590-178-4. It is recommended the Organization comply with U.A.C. Rule R590-178-4 when selecting future investment arrangements. (NOTES TO FINANCIAL STATEMENTS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization is sincerely appreciated.

Respectfully Submitted,

Colette M Reddoor

Colette M. Reddoor
Financial Examiner